

# Blueprint Maryland

THE STATE'S HOUSING ECONOMY IN REVIEW ISSUE 3 VOLUME 1

## Homeownership in Maryland Exceeds National Rate

**T**he dream of homeownership is being fulfilled in Maryland at a faster rate than the national average. From 1984 to 1994, the homeownership rate declined from 64.5 percent to 64 percent nationally and from 67.8 percent to 64.1 percent in Maryland. Starting in 1995, however, the homeownership rate took a turn for the better and has since increased substantially, reaching 68.3 percent nationally and 71.6 percent in Maryland.

Maryland's homeownership growth since 1995 has significantly improved its national ranking. In 2004, the homeownership rate in Maryland was 71.6 percent, ranking Maryland 22<sup>nd</sup> in the nation. By 2003, Maryland's homeownership rate increased to 71.6 percent, ranking it 22<sup>nd</sup> nationally.

Fueled by the longest economic expansion in the nation's history, contributing factors to the rise in Maryland homeownership include:

■ **Household Income:** Maryland's unemployment rate declined from 6.2 percent in 1995 to 4.3 percent in 2003. As Maryland's economy improved, demand for labor increased, resulting in significant increases in household income. Since 1995, the inflation-adjusted median household income in Maryland rose by 2.7 percent annually, reaching \$56,145 in 2003.

■ **Mortgage Rates:** The low inflationary environment in the United States enabled mortgage rates to drop to levels not seen since the 1960s. Fixed 30-year mortgage interest rates declined by an average net change of 3.7 percent annually from the high of 7.9 percent in 1995 to a low of 5.6 percent in 2003.

■ **Baby Boomers:** The baby boomer generation provided a significant boost to homeownership as this demographic cohort entered their prime homeownership years. During the 1995-2003 period, the population aged 35 years and older in Maryland increased by an average rate of 2.4 percent per year.

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## Economic Digest

### National Economy Improves

The Federal Reserve Board's latest economic activity report—commonly known as the Beige Book—shows a steady broadening of the economic expansion in 2004. At the same time, the Chicago Fed National Activity Index was 0.49 for the month of January, a vast improvement over December 2003, when the index was 0.05. The January index shows that the U.S. economic activity is improving

due to gains in productivity, strong homebuilding activity, rising business investment, and steady consumer spending. The job market is improving following the addition of 112,000 net new jobs in January, but this is not yet enough to fuel a self-sustaining recovery.

While residential housing markets remain strong, commercial real estate markets have been weak, according to the Beige Book. The report also shows that while banks

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While Maryland has experienced steady growth in homeownership, the high cost of housing in many parts of the State has made it difficult for many families to purchase their first home. To address this issue, the State's homeownership initiative, More House 4 Less, offers lower interest rate mortgage loans, higher purchase price limits, and downpayment and settlement assistance to low- to moderate-income families through the CDA Maryland Mortgage Program. Learn more at [www.morehouse4less.com](http://www.morehouse4less.com).

— ROBERT L. EHRLICH, JR., Governor, State of Maryland



According to the Chicago Fed National Activity Index, the nation's economic improvement is due to gains in productivity, strong homebuilding activity, rising business investment, and steady consumer spending.



#### ...Homeownership in Maryland from cover

- **Immigration:** Strong levels of immigration have also contributed to rising homeownership rates in Maryland. From 1995 to 2003, foreign immigration to Maryland increased on average by 7.4 percent annually.
- **Federal Programs:** Innovations in mortgage finance by government-sponsored enterprises (such as Fannie Mae and Freddie Mac) have provided further liquidity into the mortgage markets. This has helped to reduce origination and servicing costs and enabled the

secondary markets to design new purchase products with 3 percent or less in downpayments on conventional loans.

- **CDA Mortgages:** The State's Community Development Administration (CDA) Maryland Mortgage Program has significantly increased low-income homeownership statewide. Since 2002, CDA mortgage loans accounted for about 3.3 percent of all homes valuing less than \$269,800 sold to owner-occupied households in Maryland. ■

**Maryland's homeownership growth since 1995 has significantly improved its national ranking. In 2003, the homeownership rate in Maryland was 71.6 percent, ranking Maryland 22<sup>nd</sup> in the nation.**

#### Homeownership Percentage Rates

Year	National	State of Maryland		
	%	%	National Ranking	Deviation from National Rate
1984	64.5	67.8	27	3.3
1985	63.9	65.6	34	1.7
1986	63.8	62.8	39	-1.0
1987	64.0	62.7	40	-1.3
1988	63.8	63.5	40	-0.3
1989	63.9	65.5	32	1.6
1990	63.9	64.9	35	1.0
1991	64.1	63.8	39	-0.3
1992	64.1	64.8	36	0.7
1993	64.0	65.5	32	1.5
1994	64.0	64.1	36	0.1
1995	64.7	65.8	36	1.1
1996	65.4	66.9	33	1.5
1997	65.7	70.5	14	4.8
1998	66.3	68.7	29	2.4
1999	66.8	69.6	30	2.8
2000	67.4	69.9	29	2.5
2001	67.8	70.7	27	2.9
2002	67.9	72.0	20	4.1
2003	68.3	71.6	22	3.3

Source: U.S. Census Bureau & Maryland Department of Housing and Community Development

## Construction Industry Trends

**Construction spending, which represents about 20 percent of the gross domestic product, is the driving force behind the economic slump and economic recovery.**

The U.S. Department of Commerce reported that from December 2003 to January, construction spending contracted 0.3 percent to a seasonally adjusted annual rate of \$934.4 billion. Yet, the construction industry remains on a solid upward trend as spending is up 5.4 percent compared to a year ago.

Private residential spending, virtually unchanged in January, was up by 11.4 percent compared to a year ago. Despite an overall reduction in nonresidential construction from December 2003 to January—a decline of 1.7 percent—government construction spending increased by 0.2 percent in January providing a key source of support for construction activity. ■

# Residential Building Permits, Starts and Completions

Despite a drop in residential building permits across the United States in January, the overall trend still remains positive due to historically low mortgage rates, low home inventories, and a stable job market.

Issued building permits declined by 14.1 percent nationally and by 8.1 percent in the South region, which includes Maryland, Delaware, Washington, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, Louisiana, Arkansas and Texas.

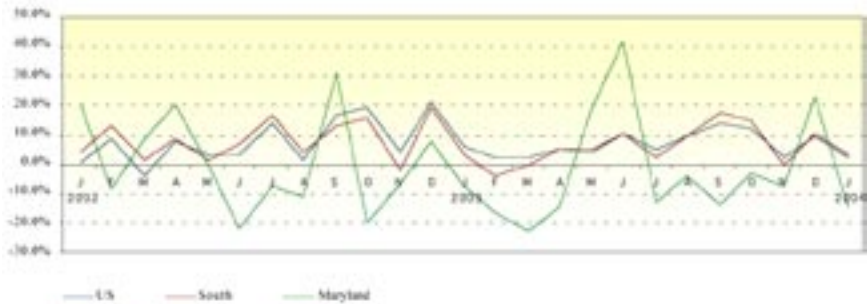
Building permits issued in Maryland also declined from December 2003 to January by 28.3 percent to 1,761. In January, single-family housing permits declined by 18.7 percent compared to the previous month, while multifamily housing permits dropped by 64.8 percent. Hence, the weakness in the number of issued building permits was mostly in multifamily housing, though single-family permits also experienced declines from the previous month. Compared to January 2003, residential building permits were up 8.3 percent in the United States and 6.7 percent in the South, but declined 14.9 percent in Maryland.

Compared to January 2003, residential building permits were up 8.3 percent in the United States and 6.7 percent in the South, but declined 14.9 percent in Maryland.

Residential housing activity also slowed in January. Housing starts in the nation declined by 7.9 percent to 1.9 million units. Both single-family and multifamily housing starts dropped by 8 percent. The decline in starts, however, was likely exaggerated by the unusually cold winter in the Northeast and Midwest regions. Although the U.S. Census Bureau adjusts the data for seasonal factors, it cannot always account for unusual weather patterns. Housing starts dropped by 14 percent in the Northeast and by 21 percent in the Midwest in January. The decline in housing starts in the South and West, however, were more modest. Housing starts declined by 5.2 percent in the South and by 1 percent in the West. In Maryland, housing starts were down by 14.3 percent in January reaching 2,043 units. Compared to a year ago, though, housing starts were up 2.4 percent in Maryland, 12 percent in the South, and 5 percent nationally.

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Residential Building Permits – All Units  
Percent Change from Same Month Previous year



Source: U.S. Census Bureau & Maryland Department of Housing and Community Development

Residential Construction (January 2004)

County	Permits		Starts		Completions	
	Units	\$ Value ('000s)	Units	\$ Value ('000s)	Units	\$ Value ('000s)
Allegany	4	472	4	472	7	1,070
Anne Arundel	131	16,787	318	28,225	475	45,535
Baltimore	79	9,912	143	13,580	91	11,633
Baltimore City	5	649	5	649	9	537
Calvert	71	7,651	71	7,651	30	4,590
Caroline	4	345	4	345	7	1,118
Carroll	119	15,471	119	15,471	113	14,105
Cecil	30	4,588	80	7,088	120	12,909
Charles	60	11,892	60	11,892	150	24,009
Dorchester	22	2,284	22	2,284	14	2,104
Frederick	125	12,828	125	12,828	163	21,004
Garrett	2	428	2	428	34	7,085
Harford	66	9,856	66	9,856	186	24,489
Howard	121	12,041	266	21,283	77	10,038
Kent	10	1,153	10	1,153	10	950
Montgomery	344	76,739	311	69,046	388	41,523
Prince George's	177	54,544	177	54,544	50	4,826
Queen Anne's	18	3,883	18	3,883	13	1,695
Somerset	78	8,001	70	7,600	10	617
St. Mary's	3	327	12	777	101	12,765
Talbot	32	6,139	32	6,139	47	8,629
Washington	65	7,273	61	7,093	116	14,664
Wicomico	37	4,919	33	4,095	52	5,029
Worcester	158	16,127	84	11,617	85	11,531
Maryland	1,761	\$284,310	2,093	\$297,999	2,348	\$282,455

Source: U.S. Census Bureau & Maryland Department of Housing and Community Development



Average 30-year fixed effective mortgage rates declined in February from an average of 5.8 to 5.74 percent nationally and in the South.



New home sales in Maryland remain strong, as sales were up by 15.2 percent in January, compared to the previous month. New home sales also increased by 10.5 percent nationally and by 11.1 percent in the South.

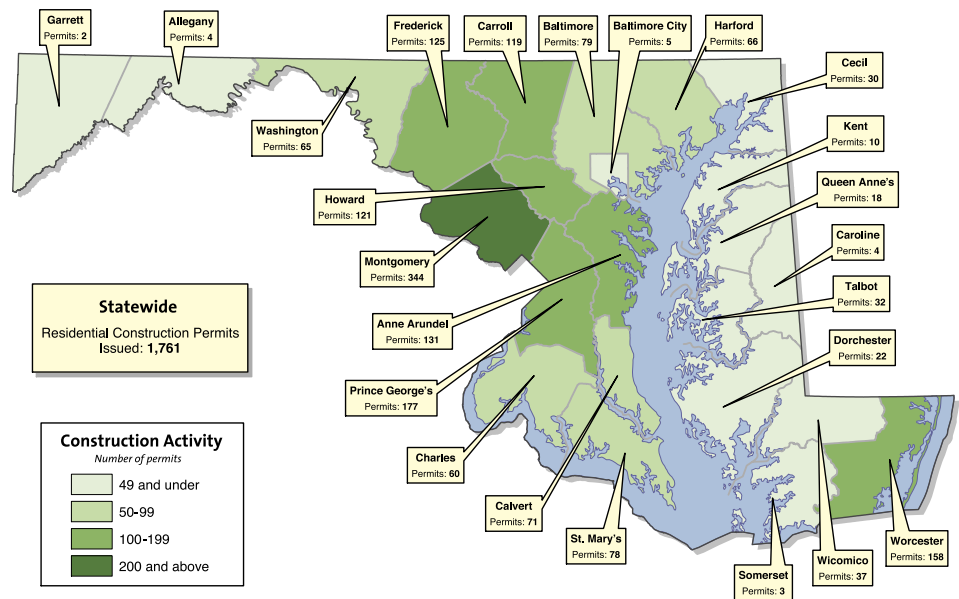
...Residential Building from page 3

From December 2003 to January, housing units completed declined by 33.1 percent to 2,348 units in Maryland, by 12.9 percent in the South, and by 2.3 percent in the nation. Compared to a year ago, housing completions were down 1.4 percent in Maryland and 7.2 percent in the South, but were up 3.8 percent nationally.

Across Maryland, the value of housing permits declined by 8.3 percent to \$284 million. Overall only six Maryland jurisdictions reported gains in the number and value of building permits issued, including Prince George's, Talbot, Montgomery, Somerset, Allegany and Worcester

counties. Statewide, the value of housing starts was down by 3.2 percent from December 2003 to \$298 million. Strong housing starts, however, were reported in Somerset, Allegany, Anne Arundel, Prince George's, Somerset, Talbot and Worcester counties. The value of completed Maryland housing units declined by 36 percent to \$282 million in January. Only nine Maryland jurisdictions reported gains in housing units completed in this month, including Anne Arundel, Cecil, Frederick, Montgomery, Somerset, St. Mary's, Talbot, Washington and Worcester counties. ■

Residential Construction Permits (January 2004)



Source: Maryland Department of Housing and Community Development

## Mortgage Rate Trends

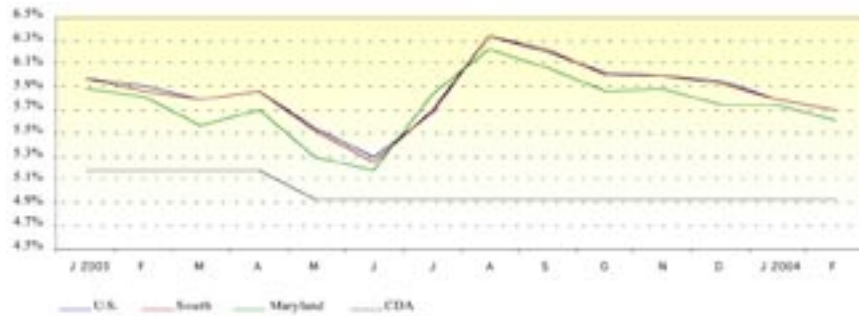
**The effective 30-year fixed mortgage rates (that is, rates that account for variations in fees and points) remained at historically low levels in February.**

From January to February, Freddie Mac's 30-year effective fixed mortgage rate declined from 5.8 percent to 5.74 percent in the United States and in the South. Maryland's 30-year fixed effective mortgage rate declined to 5.6 percent in February from 5.74 percent in January. The Maryland commercial fixed mortgage rate is now 10 basis points below the national rate.

The State's effective mortgage rate remained unchanged at 4.95 percent. The Community Development Administration (CDA) Maryland Mortgage Program ([www.morehouse4less.com](http://www.morehouse4less.com)) provides low-interest mortgage loans to eligible homebuyers with low- to moderate-income households through private lending institutions throughout the State. The program began in 1980 and is targeted primarily to first-time homebuyers. The CDA interest rate is now 67 basis points below the average commercial mortgage rates in Maryland. ■



### 30-Year Fixed Mortgage Rates



Source: Freddie Mac & Maryland Department of Housing and Community Development



## Home Sale Trends

### New Homes

New home sales in the United States increased by 10.5 percent in January from the previous month to 84,000 units. The new home sales trend was strong as sales were up by 10.5 percent compared to a year ago. Housing inventory remained very tight in January. The National Association of Realtors reported that the January's supply of new homes stood at 3.9 months, which is quite low by historic standards.

New home sales remain strong in Maryland and in the South as sales were up by 15.2 percent and 11.1 percent, respectively, compared to December 2003. On the year-to-year basis, new home sales were up 8.1 percent in the South and 0.1 percent in Maryland.

### Existing Homes

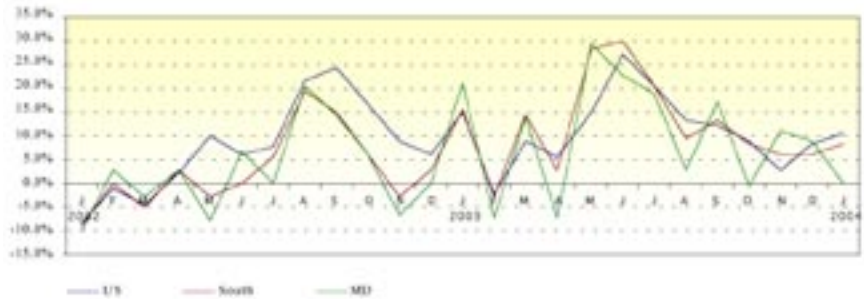
Existing home sales dropped significantly nationwide to 349,000 units in January, a decline of 30.2 percent from the previous month. The decline occurred despite very attractive mortgage rates. The January pace of existing home sales remained solid, however, as sales were up 0.6 percent compared to a year ago. Low inventory of existing homes and lack of pent-up demand were the likely factors causing the slow down. The historically low inventory of existing homes for sale (4.4 months supply) combined with a blockbuster year of home sales resulted in January's slow home sales.

The slow down in January's existing home sales was widespread across the nation as sales declined by 32.5 percent in the South and 32 percent in Maryland. Compared to a year ago, however, sales were up 5.2 percent in the South, but down 2.6 percent in Maryland.

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### New Home Sales

Percent Change from Same Month Previous year

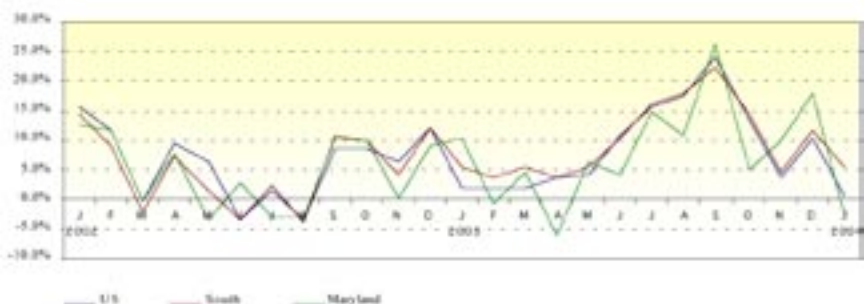


Source: U.S. Census Bureau & Maryland Department of Housing and Community Development

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### Existing Home Sales

Percent Change from Same Month Previous year



Source: U.S. Census Bureau & Maryland Association of Realtors

Maryland's homeownership rate stood at 71.6 percent in 2003, ranking it 22<sup>nd</sup> in the nation. This rate was 3.3 points above the national rate of 68.4 percent.



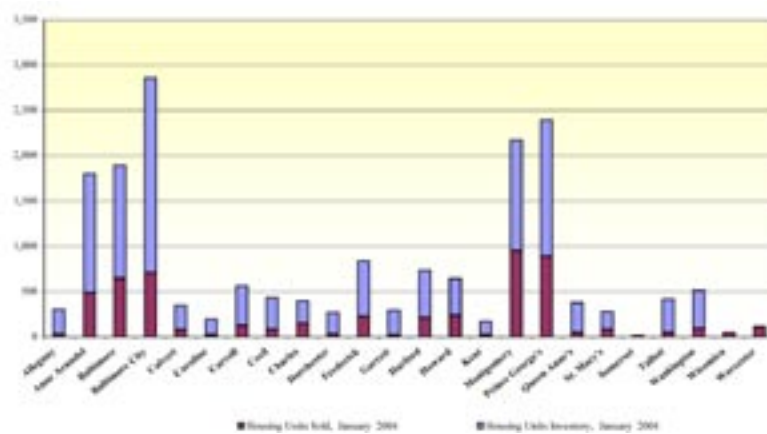
#### ...Home Sale Trends from page 5

In January, the inventory of housing units available for sale totaled 12,726 units statewide, down 12.3 percent from a year ago, but up 0.1 percent from the previous month. A total of 5,404 housing units were sold in Maryland, down 2.6 percent from last year and 32 percent from the previous month. The number of units sold represents 42.5 percent of the available inventory. The largest inventory of existing homes was in Baltimore City, where 2,157 houses were available and only 707 were sold, just 32.8 percent of the inventory. The smallest inventory was in Kent County, where 152

**A total of 5,404 housing units were sold in Maryland, down 2.6 percent from last year and 32 percent from the previous month.**

houses were offered and only 23 units were sold, about 15.1 percent of the inventory. Montgomery County, with 952 units, and Somerset County, with 13 units, had the highest and lowest numbers of home sales in Maryland. ■

#### Real Estate Transactions



Source: Maryland Association of Realtors

#### Housing Units Sold and Housing Inventory (January 2004)

County	Housing Units Sold			Housing Units Inventory		
	Current Month	Change from Last Year	Change From Last Month	Current Month	Change From Last Year	Change From Last Month
Allegany	30	-21.1%	-42.3%	277	-15.0%	-6.4%
Anne Arundel	487	-5.6%	-34.8%	1,314	-3.0%	6.3%
Baltimore	645	-6.1%	-32.4%	1,250	-49.9%	-6.9%
Baltimore City	707	11.9%	-6.5%	2,157	-13.5%	-1.3%
Calvert	81	-30.2%	-42.1%	269	-30.1%	9.8%
Caroline	28	7.7%	-6.7%	170	0.6%	-2.3%
Carroll	129	-16.2%	-34.8%	439	0.2%	-5.6%
Cecil	85	14.9%	-28.6%	355	-0.8%	6.0%
Charles	149	-5.1%	-32.0%	246	-17.4%	-3.9%
Dorchester	33	17.9%	-17.5%	235	4.9%	7.8%
Frederick	227	1.3%	-44.1%	616	0.8%	11.6%
Garrett	18	-25.0%	-37.9%	275	4.6%	-3.2%
Harford	212	6.0%	-29.8%	526	-3.3%	1.7%
Howard	239	-14.0%	-40.5%	409	-18.2%	2.3%
Kent	23	35.3%	-23.3%	152	-9.5%	1.3%
Montgomery	952	-0.1%	-34.1%	1,223	-26.8%	-3.1%
Prince George's	890	1.6%	-33.1%	1,505	-19.6%	0.9%
Queen Anne's	51	2.0%	-31.1%	333	31.1%	2.8%
St. Mary's	86	-14.0%	-45.9%	192	-27.3%	-6.8%
Somerset	13	-18.8%	-18.8%	0	0.0%	0.0%
Talbot	52	-7.1%	-21.2%	366	12.3%	-1.6%
Washington	99	1.0%	-32.2%	417	-9.0%	2.2%
Wicomico	53	-29.3%	-51.4%	0	0.0%	0.0%
Worcester	115	-23.8%	-36.5%	0	0.0%	0.0%
<b>Maryland</b>	<b>5,404</b>	<b>-2.6%</b>	<b>-32.0%</b>	<b>12,726</b>	<b>-12.3%</b>	<b>0.1%</b>

Source: Maryland Association of Realtors

# Homeownership Affordability Indices

The Maryland homeownership affordability indices for repeat and first-time homebuyers provide a framework within which housing affordability in Maryland counties and Baltimore City can be traced over time.

In January, the Maryland affordability index for repeat buyers was 134, signifying the ability of a typical repeat buyer to afford a house that is 34 percent more expensive than a median priced home. The January Maryland Affordability Index for first-time buyers stood at 91, indicating that the typical first-time buyer could not afford the median priced home available to first-time buyers. Still, homebuyers' ability to buy a median priced home in Maryland improved in January as the statewide affordability index was up 5.9 percent from December 2003. Improvements in affordability indices result from declining mortgage interest rates and slower house price appreciation. Effective 30-year mortgage rates declined

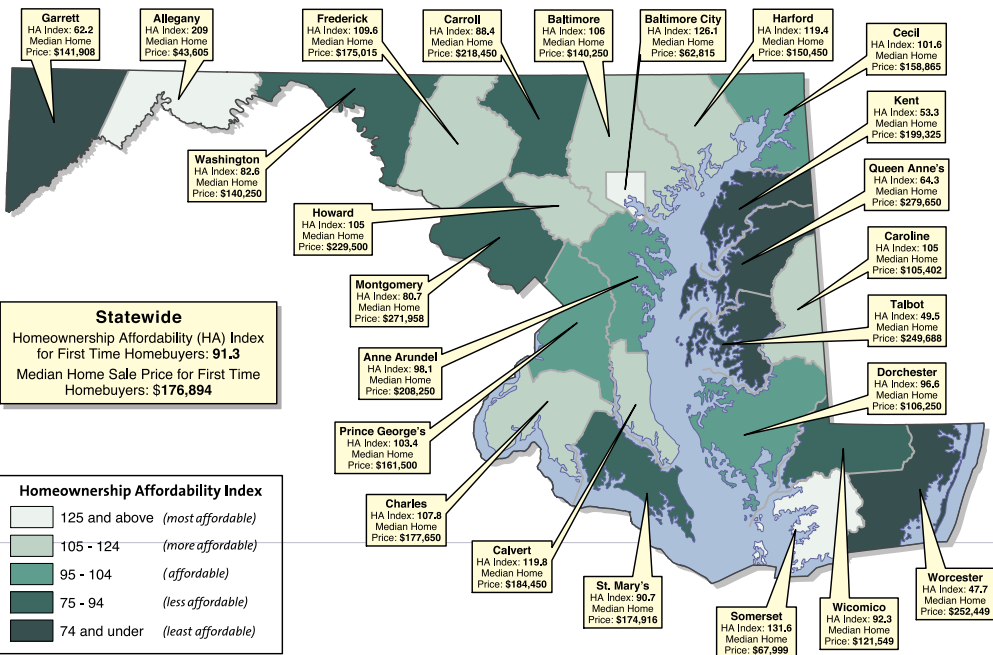
from 5.9 percent in December 2003 to 5.7 percent in January. Median sale price of existing homes available to repeat buyers and first-time buyers in Maryland declined by 3.8 percent to \$208,110 and \$176,894, respectively, in January compared to the previous month.

Across the State, Queen Anne's County had the highest median housing price of \$329,000 for repeat buyers and \$279,650 for first-time buyers, up 69.2 percent from a year ago and 11.5 percent from the previous month. Worcester County's expensive housing market made it the least affordable jurisdiction in Maryland with the homeownership affordability indices of 70 for repeat buyers and 48 for first-time buyers. Allegany County, on the other hand, with the housing affordability indices of 307 for repeat homebuyers and 209 for first-timers, was the most affordable jurisdiction in Maryland. The median housing prices for Allegany County in January were \$51,300 for repeat buyers and \$43,605 for first-time homebuyers. ■

Homebuyers' ability to buy a median priced home in Maryland improved in January as the statewide affordability index was up 5.9 percent from December 2003.

The Maryland affordability indices improved from December 2003 to January from 127 to 134 and 83 to 91 for repeat and first-time homebuyers, respectively. Improvements in affordability indices result from a decline in mortgage interest rates and slower house price appreciation.

Affordability Index for First-Time Homebuyers  
(January 2004)



Source: Maryland Department of Housing and Community Development

## Home Sale Prices and Affordability Indices

(January 2004)

County	MEDIAN HOME SALE PRICES				HOUSING AFFORDABILITY INDICES			
	Current Month		% Change Fr. Last Year	% Change Fr. Last Month	Current Month		% Change Fr. Last Year	% Change Fr. Last Month
	Repeat	First Time Buyers			Repeat	First Time Buyers		
Allegany	\$51,300	\$43,605	-20.6%	-15.8%	307	209	32.3%	21.0%
Anne Arundel	\$245,000	\$208,250	22.6%	-1.6%	144	98	-12.5%	3.7%
Baltimore	\$165,000	\$140,250	15.1%	3.1%	156	106	-9.0%	-1.2%
Baltimore City	\$73,900	\$62,815	18.7%	-5.2%	186	126	-13.9%	7.2%
Calvert	\$217,000	\$184,450	3.8%	-18.0%	176	120	3.5%	24.3%
Caroline	\$124,002	\$105,402	-0.4%	-3.5%	154	105	4.4%	5.5%
Carroll	\$257,000	\$218,450	11.5%	1.8%	130	88	-4.6%	0.1%
Cecil	\$186,900	\$158,865	14.7%	3.8%	149	102	-6.9%	-1.8%
Charles	\$209,000	\$177,650	14.5%	-5.0%	159	108	-8.0%	7.3%
Dorchester	\$125,000	\$106,250	54.3%	8.2%	142	97	-32.0%	-5.9%
Frederick	\$205,900	\$175,015	7.1%	-8.5%	161	110	-0.3%	11.4%
Garrett	\$166,950	\$141,908	41.5%	-44.2%	92	62	-27.3%	82.2%
Harford	\$177,000	\$150,450	21.2%	-5.3%	176	119	-12.5%	7.7%
Howard	\$270,000	\$229,500	20.0%	-3.1%	154	105	-11.0%	5.2%
Kent	\$234,500	\$199,325	46.6%	9.1%	78	53	-30.0%	-6.8%
Montgomery	\$319,950	\$271,958	23.1%	-1.6%	119	81	-14.5%	3.5%
Prince George's	\$190,000	\$161,500	14.9%	0.0%	152	103	-8.5%	1.9%
Queen Anne's	\$329,000	\$279,650	69.2%	11.5%	95	64	-37.6%	-8.6%
St. Mary's	\$205,783	\$174,916	6.5%	-6.5%	133	91	-1.7%	8.9%
Somerset	\$79,999	\$67,999	33.3%	-20.8%	194	132	-21.0%	28.6%
Talbot	\$293,750	\$249,688	22.4%	1.3%	73	49	-15.0%	0.5%
Washington	\$165,000	\$140,250	18.5%	-2.6%	122	83	-12.5%	4.5%
Wicomico	\$142,999	\$121,549	4.4%	15.3%	136	92	0.0%	-11.7%
Worcester	\$296,999	\$252,449	48.5%	20.7%	70	48	-29.1%	-15.6%
<b>Maryland</b>	<b>\$208,110</b>	<b>\$176,894</b>	<b>17.8%</b>	<b>-3.8%</b>	<b>134</b>	<b>91</b>	<b>-10.5%</b>	<b>5.9%</b>

Source: Maryland Association of Realtors & Maryland Department of Housing and Community Development



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## ...Economic Digest from cover

have an ample amount of cash, there is very little demand by the corporate sector. There has been a major rebound in information technology capital spending, however, as reflected in a considerable rise in production rates of electronic and electrical equipment and semi-conductors. In the labor market, employment and wages are increasing, but at a modest pace. In contrast, demand for temporary employment remains high in a wide spectrum of industries. The Beige Book also shows that commodity prices are rapidly rising, especially for steel and lumber, but retail prices remain stable or are rising very slowly.

**Consumers have apparently become disheartened with current economic conditions and the pace of job creation. Moreover, consumers' short-term outlook turned less optimistic as they are anticipating economic conditions to remain about the same in the near future.**

### Surprisingly, Consumer Confidence Drops

The University of Michigan Consumer Sentiment Index retreated sharply from January as the index dropped 9.4 points to 94.4 in February. The expectations component of the index fell 11.6 points from January and the present situation component of the index fell 5.9 points. The large decline in the Consumer Sentiment Index was due to weaker than expected improvement in labor markets and wage gains. Continued high and rising energy prices are also affecting households' sentiment.

The Conference Board's Consumer Confidence Index, which had improved last month, weakened significantly in February. The index now stands at 87.3 (1985=100), down from 96.4 in January. The Expectations Index fell to 96.8 from 107.8. The Present Situation Index also declined to 73.1 from 79.4. Consumers have apparently become disheartened with current economic conditions and the pace of job creation. Moreover, consumers' short-term outlook turned less optimistic as they are anticipating economic conditions to remain about the same in the near future. ■